



JOHN NAIMO
ACTING AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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August 22, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: John Naimo
Acting Auditor-Controller

A handwritten signature in black ink, reading "John Naimo", is written over the printed name and title.

SUBJECT: **EL NIDO FAMILY CENTERS – A DEPARTMENT OF PUBLIC SOCIAL
SERVICES CAL-LEARN PROGRAM PROVIDER – CONTRACT
COMPLIANCE REVIEW**

We completed a program and fiscal review of El Nido Family Centers (El Nido or Agency), which covered a sample of transactions from July 2012 through October 2013. The Department of Public Social Services (DPSS) contracts with El Nido, a non-profit organization, to operate the Cal-Learn Program, which assists CalWORKs participants that are teenage parents in completing their high school education. The contract services include recruiting and enrolling eligible participants, conducting Program orientations, handling case management, identifying and providing supportive services (i.e., child care, transportation, etc.), and assisting participants with enrolling in classes and completing their high school education.

The purpose of our review was to determine whether El Nido appropriately accounted for and spent Cal-Learn Program funds to provide the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with their contract and other applicable guidelines.

DPSS paid El Nido approximately \$4.1 million on a fixed-fee basis from July 2012 through October 2013. The contract requires the Agency to return or reinvest any unspent revenue. El Nido provides services to residents of the Second, Third, Fourth, and Fifth Supervisorial Districts.

Results of Review

El Nido provided services to eligible participants, recorded and deposited DPSS payments timely, and Agency staff had the required qualifications. However, the Agency did not always comply with all of the County contract requirements. Specifically, El Nido:

- Inappropriately charged \$39,739 in shared expenditures to the Cal-Learn Program.

El Nido's attached response indicates that they will reallocate all shared expenditures charged to the Cal-Learn Program during the contract term using allowable methods, provide DPSS with supporting documentation, and repay any overbilled amounts.

- Inappropriately allocated \$14,476 in payroll and employee benefit costs to the Cal-Learn Program based on time estimates, instead of actual hours worked as required.

El Nido's attached response indicates that they are now allocating payroll and employee benefit costs to the Cal-Learn Program based on actual hours worked.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with El Nido and DPSS on July 17, 2014. El Nido's attached response indicates agreement with our findings and recommendations. DPSS will work with El Nido to ensure that our recommendations are implemented.

We thank El Nido management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:AA:pn

Attachment

c: William T Fujioka, Chief Executive Officer
Sheryl L. Spiller, Director, DPSS
Fred Samulon, Ph.D., Board President, El Nido
Liz Herrera, Executive Director, El Nido
Public Information Office
Audit Committee

**EL NIDO FAMILY CENTERS
CAL-LEARN PROGRAM
CONTRACT COMPLIANCE REVIEW
JULY 2012 THROUGH OCTOBER 2013**

ELIGIBILITY

Objective

Determine whether El Nido Family Centers (El Nido or Agency) provided services to individuals who met the Cal-Learn Program eligibility requirements.

Verification

We reviewed the case files for 30 (3%) of the 1,066 participants who received services during October 2013 for documentation to confirm their eligibility for Cal-Learn Program services.

Results

El Nido had documentation to support all 30 participants' eligibility for Cal-Learn Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether El Nido provided the services required by their County contract and Cal-Learn Program guidelines, and whether the Program participants received the billed services.

Verification

We visited three (60%) of the five El Nido service sites and reviewed the case files for 30 (3%) of the 1,066 participants who received services during October 2013.

Results

El Nido provided services in accordance with their County contract.

Recommendation

None.

STAFFING QUALIFICATIONS**Objective**

Determine whether El Nido's staff had the qualifications required by their County contract.

Verification

We reviewed the personnel files for five (7%) of the 75 El Nido employees who worked on the Cal-Learn Program.

Results

El Nido's staff had the qualifications required by their County contract.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether El Nido properly recorded revenue in their financial records, deposited cash receipts into their bank account timely, and that bank account reconciliations were reviewed and approved by Agency management.

Verification

We interviewed El Nido's management, and reviewed their financial records and October 2013 bank reconciliations.

Results

El Nido properly recorded revenue in their financial records, deposited Department of Public Social Services (DPSS) payments into their bank account timely, and Agency management reviewed and approved monthly bank reconciliations.

Recommendation

None.

EXPENDITURES/COST ALLOCATION PLAN**Objective**

Determine whether expenditures charged to the Cal-Learn Program were allowable under their County contract, properly documented, and accurately billed. In addition, determine whether the Agency prepared their Cost Allocation Plan (Plan) in compliance with their County contract, and used the Plan to allocate shared expenditures appropriately.

Verification

We interviewed El Nido's personnel, and reviewed the Agency's Plan and financial records for 23 non-payroll expenditures, totaling \$76,011, charged to the Cal-Learn Program from July 2013 through October 2013.

Results

El Nido's Plan was prepared in compliance with their County contract. However, the Agency inappropriately charged \$39,739 (52%) of the \$76,011 in non-payroll expenditures reviewed. Specifically, El Nido inappropriately charged \$39,739 to the Cal-Learn Program based on projections and estimates, instead of using actual amounts as required. We noted similar findings during our prior monitoring review.

Recommendations**El Nido Family Centers management:**

- 1. Reallocate all shared expenditures charged to the Cal-Learn Program during the contract term, provide the Department of Public Social Services with supporting documentation, and repay any overbilled amounts.**
- 2. Ensure that all expenditures charged to the Cal-Learn Program are allowable, properly documented, and accurately billed.**

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether El Nido's fixed assets and equipment purchased with Cal-Learn funds were used for the Program and were adequately safeguarded.

Verification

We interviewed Agency personnel and reviewed the Agency's fixed assets and equipment inventory list. We also performed a physical inventory of seven items purchased with Cal-Learn funds in prior years to verify the items exist and were being used for the Program.

Results

El Nido adequately safeguarded and used the items purchased with Cal-Learn funds for the Program.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether El Nido charged payroll costs to the Cal-Learn Program appropriately and maintained personnel files as required.

Verification

We traced the payroll costs for five employees, totaling \$18,888 for September 2013, to the Agency's payroll records and time reports. We also interviewed staff and reviewed personnel files for five El Nido Cal-Learn Program staff.

Results

El Nido maintained personnel files as required. However, El Nido inappropriately charged \$10,846 (57%) of the \$18,888 in payroll costs reviewed. Specifically, El Nido charged the payroll costs for three employees who worked on County and non-County programs based on time estimates, instead of actual hours worked as required. The Agency also used time estimates to inappropriately allocate \$3,630 in employee benefit costs to the Cal-Learn Program for September 2013. We noted similar findings during our prior monitoring review.

Recommendation

Refer to Recommendations 1 and 2.

CLOSE-OUT REVIEW**Objective**

Determine whether El Nido had any unspent revenue for the Cal-Learn Program for Fiscal Year (FY) 2012-13.

Verification

We traced the total revenues and expenditures from El Nido's FY 2012-13 close-out report to the Agency's accounting records and to DPSS' payment records.

Results

El Nido's close-out report indicated that they had \$458,600 in unspent revenue for FY 2012-13. The Agency submitted a disposition plan to DPSS for approval. However, El Nido needs to revise their accounting records based on our recommendations above, provide DPSS with a revised close-out report for FY 2012-13, and work with DPSS to return or reinvest any unspent revenue.

Recommendation

3. **El Nido Family Centers management revise their accounting records based on the recommendations above, provide the Department of Public Social Services with a revised close-out report for Fiscal Year 2012-13, and work with the Department of Public Social Services to return or reinvest any unspent revenue.**

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July 28, 2014

John Naimo, Acting Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA 90071

RE: Cal Learn – Contract Compliance Review

We have reviewed the findings of El Nido's Contract Compliance Review and we are proposing the corrective actions described below.

A. PAYROLL AND PERSONNEL

"Inappropriately allocated \$14,476 in payroll and employee benefit costs to the Cal Learn program based on time estimates, instead of actual hours worked . . ."

CORRECTIVE ACTIONS IMPLEMENTED

Immediately after the results of the review were disclosed to El Nido management staff, El Nido began corrective action to revise payroll data collection systems. ALL relevant/affected staff now maintain REAL-TIME time-sheets (signed by staff and supervisors) to accurately capture time spent for each assigned program/activity.

The time-sheet data forms the basis for payroll cost allocations to Cal Learn. Although this creates more administrative work for both program and accounting staff, all payroll and payroll-related cost allocations, including indirect cost allocations, will now be accurately and properly supported. (Some pre-determined time allocations were used previously in an attempt to reduce time spent by program staff on administrative activities so that more time would be available for program/client services.)

CORRECTIVE ACTIONS PROPOSED FOR REVIEW PERIOD(S)

We will be reviewing all challenged costs for the review period and revise the allocations using best available documentation, or if necessary, acceptable alternative procedures.

Where possible, newly recorded time sheets/time studies that were prepared by staff will be used to

retroactively re-construct payroll allocations for the review period. Unfortunately, some staff previously employed during the review period are no longer employed at El Nido; consequently, we will need to use alternate best acceptable methods (e.g., client count ratios, Full Time Equivalent ratios, etc.). We are still determining the best approach(es) in each case.

El Nido agrees that it will re-allocate all shared expenditures charged to Cal Learn during the contract term, and will repay DPSS any over-billed amounts found. Our findings and corrections will be provided, along with suitable documentation, as soon as we can complete the tasks.

B. EXPENDITURES/COST ALLOCATION PLAN

"Inappropriately charged \$39,739 in shared non-payroll expenditures to the Cal Learn program."

CORRECTIVE ACTIONS IMPLEMENTED

Where appropriate, all shared non-payroll costs are now supported by accurate allocations developed from the real-time time sheet data described above, or alternative procedures where practical.

CORRECTIVE ACTIONS PROPOSED FOR REVIEW PERIOD

See Item A above.

C. CLOSE-OUT REVIEW

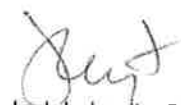
"Determine whether El Nido had any unspent revenue for the Cal Learn Program for Fiscal Year 2012-13."

Since March 2014, El Nido has been providing additional services to clients in accordance with a DPSS approved plan to re-invest unspent revenues for Fiscal Year 2012-13. Please note that although the DPSS re-investment plan was approved for \$468,000, the actual unspent revenue (as noted in the audit report) is \$458,000. The discrepancy stems from an initial response by El Nido to a DPSS request for the amount of unspent funds; El Nido inadvertently reported the incorrect amount of \$468,000.

El Nido will provide DPSS the appropriate close-out reports as required, and will work with DPSS to repay or re-invest any unspent revenues.

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We would like to thank the audit team for their diligence, courtesy, and patience during and after the audit.

Sincerely,



Jack Lebovits, Director Finance
El Nido Family Centers

Cc: Liz Herrera, Hakim Nguyen, Lizz Alund, Ara Avakyan